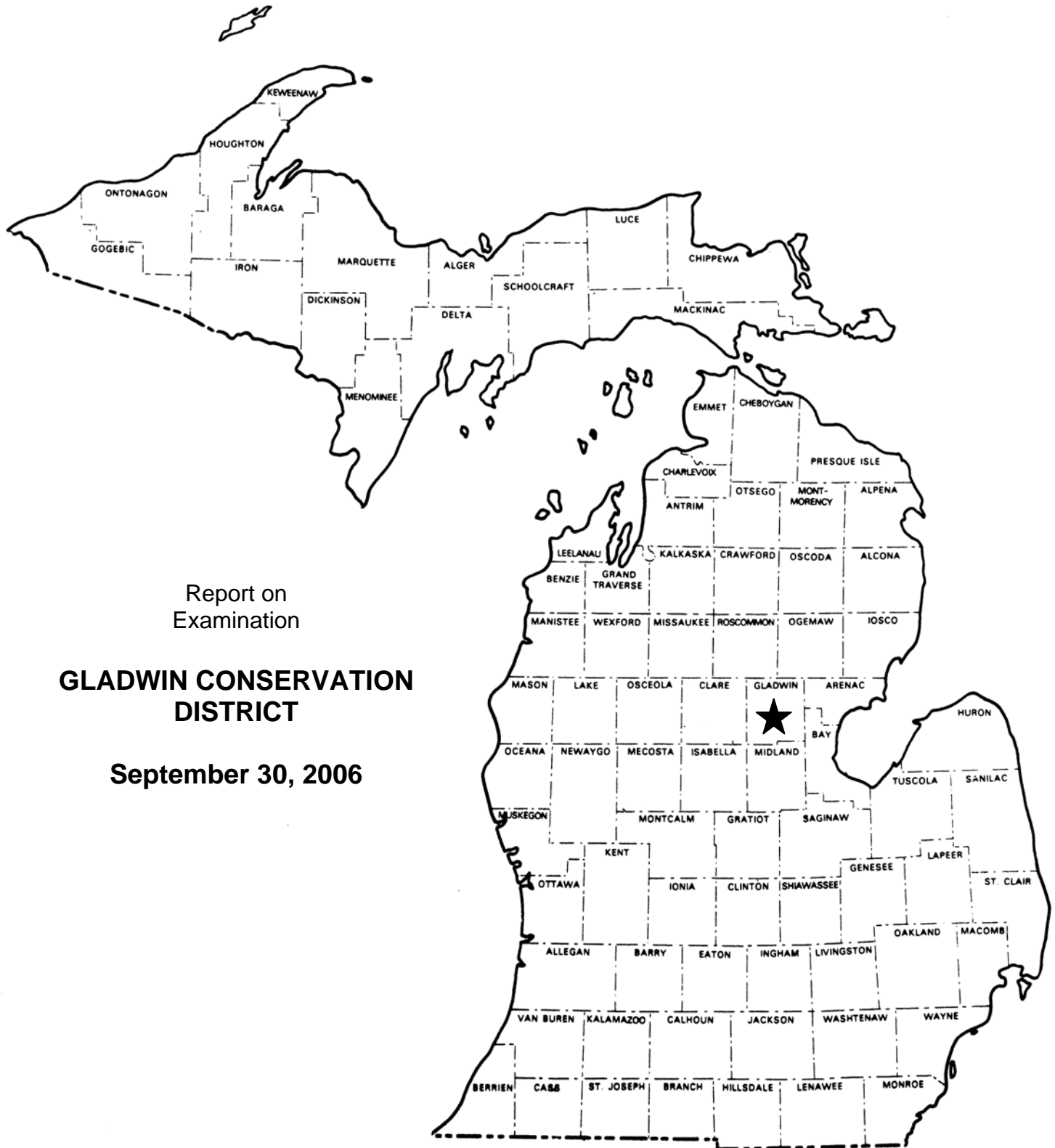


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**GLADWIN CONSERVATION
DISTRICT**

September 30, 2006



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

January 31, 2007

Board of Directors
Gladwin Conservation District
1501 North State Street
Gladwin, Michigan 48624

Independent Auditor's Report

Dear Directors:

We have audited the accompanying basic financial statements of the Gladwin Conservation District, Gladwin, Michigan, as of and for the year ended September 30, 2006, as listed in the Table of Contents. These financial statements are the responsibility of the Gladwin Conservation District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gladwin Conservation District, as of September 30, 2006 and the changes in financial position and the budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2007, on our consideration of the Gladwin Conservation District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 5 is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Gladwin Conservation District's basic financial statements. The accompanying supplementary and related information presented as Exhibits D and E has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

A handwritten signature in dark ink, appearing to be 'J. S. F.', is positioned above the printed text of the signature block.

Local Audit and Finance Division
Michigan Department of Treasury

GLADWIN CONSERVATION DISTRICT

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GLADWIN CONSERVATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

The Gladwin Conservation District's (District) discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the District's financial activity; c) identify changes in the District's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status. These statements report information about the District, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the District's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Conservation District as a Whole

The Statement of Net Assets and the Statement of Activities report information about the District, as a whole, and about its activities in a way that helps answer the question of whether the District, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the District's net assets and changes in them. The reader can think of the District's net assets (the difference between assets and liabilities) as one way to measure the District's financial health or financial position. Over time, increases and decreases in the District's net assets is one indicator of whether its financial health is improving or deteriorating.

GLADWIN CONSERVATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reporting the Conservation District's Major Fund

The fund financial statements begin on page six and provide detailed information about the major fund. The District currently has only one fund, the General Operations Fund, in which all of the District's activities are accounted. The General Operations Fund is a governmental type fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Conservation District as a Whole

The Gladwin Conservation District provides informational and educational activities that promote the understanding and implementation of natural resource conservation. Therefore, the District is involved in many educational and conservation programs such as: tree distribution, no-till drill, grass/wildflower seed distribution, wildlife habitat, adult workshops, classroom presentations, CREP and CMI grant programs

The District's net assets for the governmental funds decreased \$5,532 from a year ago for the governmental activities due to the purchase of equipment. In a condensed format, the table below shows a comparison of the net assets as of the current year to the prior year.

	Governmental Activities 2005	Governmental Activities 2006	Difference	Percent
Current Assets	\$ 117,729	\$ 93,464	\$ (24,265)	-21%
Non Current Assets	9,122	30,170	21,048	231%
Total Assets	126,851	123,634	(3,217)	-3%
Current Liabilities	4,380	7,746	3,366	77%
Non Current Liabilities	4,009	2,958	(1,051)	-26%
Total Liabilities	8,389	10,704	2,315	28%
Net Assets				
Capital Assets--Net of Related Debt	9,122	30,170	21,048	231%
Unrestricted (Deficit)	109,340	82,800	(26,540)	-24%
Total Net Assets	\$ 118,462	\$ 112,930	\$ (5,532)	-5%

GLADWIN CONSERVATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

A portion of the District's net assets in the amount of \$30,170 reflects its investments in capital assets (i.e., land, buildings, vehicles, and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Changes in Net Assets

Revenue was affected by changes in product demand due to offered Farm Bill programs. Specific services of seed and drill were down as a result. It was also affected by cuts of the Operations grant. Expenses increased due to the board's decision to increase District activities and keep public awareness by offering more services at no or low cost to the participant.

A summary of changes in net assets for the year ended September 30, 2006 follows:

	Governmental Activities <u>2005</u>	Governmental Activities <u>2006</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 87,392	\$ 79,744	\$ (7,648)	-9%
Operating Grants and Contributions	87,908	123,291	35,383	40%
General Revenues				
Unrestricted Investment Earnings	770	5,530	4,760	618%
Other Revenue	<u> </u>	<u>25,100</u>	<u>25,100</u>	<u>100%</u>
Total Revenues	<u>176,070</u>	<u>233,665</u>	<u>57,595</u>	<u>33%</u>
Program Expenses				
Community and Economic Development	<u>197,273</u>	<u>239,197</u>	<u>41,924</u>	<u>21%</u>
Total Expenses	<u>197,273</u>	<u>239,197</u>	<u>41,924</u>	<u>21%</u>
Change in Net Assets	<u>\$ (21,203)</u>	<u>\$ (5,532)</u>	<u>\$ 15,671</u>	<u>-74%</u>
Ending Net Assets	<u>\$ 118,462</u>	<u>\$ 112,930</u>		

The Conservation District's Fund

The District's General Operations Fund is used to control the expenditures of grant monies which are earmarked by law for the conservation of natural resources of the state, including soil, water, farmland, and other natural resources.

For the year ended September 30, 2006, the fund balance of the General Operations Fund decreased by \$31,631 as compared to a decrease of \$9,729 in the fund balance for the year ended September 30, 2005. Total operating revenues were \$229,665 which increased by \$53,595 primarily as a result of increases in grants and contributions. There was also a one time donation of \$25,000 for a local match required on a project.

GLADWIN CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Total current expenditures of \$261,296 exceeded the prior year expenditures by \$64,023. The increase in expenditures was primarily the result of an increase in grant projects and capital outlay.

Budgetary Highlights

Prior to the beginning of any year, the District's budget is compiled based upon certain assumptions and facts available at that time. During the year, the District's Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews all expenditures throughout the year.

The original revenue budget for 2006 was more than the final budget by \$21,000. The final budget was more than the actual revenues by \$12,160. This was due to a reduction in Federal grants and donations less than anticipated.

The District's original expenditures were projected at \$262,825. During the year the expenditure budget was reduced to \$241,825, while actual expenditures were \$261,296, resulting in actual expenditures being over the budget by \$19,471. This was primarily due to large capital outlay for equipment.

Capital Assets and Debt Administration

At the end of 2005, the District had \$9,122 invested in capital assets, including office and field equipment. Major additions to the capital assets this year included a tractor and attachments at a cost of \$25,060. The District does not have any debt.

Economic Factors and Next Year's Budget

The Directors of the District considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy. The District derives approximately half of its revenues from tree sales. The recent economic downturn has resulted in less revenue from tree and seed sales. More patrons are choosing to wait for cost share programs and are less willing to install conservation plans on their own. The State of Michigan may again reduce grants to districts due to their budget constraints.

The board realizes, and the reader should understand, that there are not sufficient funds available to consult with every land owner in Gladwin County; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the land owners and the citizens of Gladwin County.

GLADWIN CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Contacting the Conservation District's Financial Management

This financial report is designed to provide the land owners, citizens and other interested parties a general overview of the District's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Conservation District for Gladwin County administrative offices at: 1501 North State Street, Gladwin, Michigan 48624.

**GLADWIN CONSERVATION DISTRICT
GOVERNMENTAL FUNDS BALANCE SHEET
AND STATEMENT OF NET ASSETS
September 30, 2006**

EXHIBIT A

	Modified Accrual Basis	Adjustments	Statement of Net Assets
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 63,046		\$ 63,046
Accounts Receivable	4,000		4,000
Due From State	21,094		21,094
Inventories	3,824		3,824
Prepaid Expenses	1,500		1,500
Capital Assets (Net of Accumulated Depreciation)		\$ 30,170	30,170
Total Assets	\$ 93,464	\$ 30,170	\$123,634
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable	\$ 7,746		\$ 7,746
Deferred Revenue	4,000	\$ (4,000)	-
Long-Term Liabilities			
Accrued Liabilities (Vacation)		2,958	2,958
Total Liabilities	11,746	(1,042)	10,704
<u>FUND BALANCE/NET ASSETS</u>			
Fund Balance			
Reserved for Inventory	3,824	(3,824)	-
Unreserved/Undesignated	77,894	(77,894)	-
Total Fund Equities	81,718	(81,718)	-
Total Liabilities and Fund Balance	\$ 93,464		-
Net Assets			
Invested in Capital Assets--Net of Related Debt		30,170	30,170
Unrestricted		82,760	82,760
Total Net Assets		\$ 112,930	\$112,930

The Notes to Financial Statements are an integral part of this statement.

**GLADWIN CONSERVATION DISTRICT
RECONCILIATION OF FUND BALANCES ON THE
BALANCE SHEET FOR GOVERNMENTAL FUNDS TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
September 30, 2006**

EXHIBIT A-1

Fund Balances--Total Governmental Funds	\$ 81,718
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Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial	
Add--Capital Assets	68,897
Deduct--Accumulated Depreciation	<u>(38,727)</u>
Net Capital Asset Addition	<u>30,170</u>

Revenues that do not provide current financial resources are not reported as revenue in the governmental fund statements.	4,000
--	-------

Certain liabilities, such as compensated absences, are not due and payable in the current period. Therefore, they are not reported in the governmental fund statements.	
Deduct--Compensated Absences and Other Long-Term Liabilities	<u>(2,958)</u>

Net Assets of Governmental Activities	<u><u>\$112,930</u></u>
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The Notes to Financial Statements are an integral part of this statement.

GLADWIN CONSERVATION DISTRICT
STATEMENT OF GOVERNMENTAL FUND REVENUE,
EXPENDITURES AND CHANGES IN FUND BALANCE
AND STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2006

EXHIBIT B

	Modified Accrual Basis	Adjustments	Statement of Net Activities
Revenue			
State Grants	\$116,016		\$116,016
Contributions From Local Units	7,275		7,275
Charges for Services	75,744	\$ 4,000	79,744
Interest and Rents	5,530		5,530
Other Revenues	25,100		25,100
Total Revenue	229,665	4,000	233,665
Expenditures			
Other General Government	236,236	2,961	239,197
Capital Outlay	25,060	(25,060)	-
Total Expenditures	261,296	(22,099)	239,197
Excess of Revenue Over (Under) Expenditures	(31,631)		
Change in Net Assets		26,099	(5,532)
Fund Balance/Net Assets--Beginning of Year	118,152		
Restatement to Fund Balance	(4,803)		
Restated Fund Balance/Net Assets--Beginning of Year	113,349	118,462	118,462
Fund Balance/Net Assets--End of Year	\$ 81,718	\$144,561	\$112,930

The Notes to Financial Statements are an integral part of this statement.

**GLADWIN CONSERVATION DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED September 30, 2006**

EXHIBIT B-1

Net Change in Fund Balances--Total Governmental Funds	\$(31,631)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Add--Capital Outlay	25,060
Deduct--Depreciation Expense	(4,012)

Reduction of compensated absences has no effect on the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	1,051
--	-------

Revenue recognized as earned in full accrual but not received within 60 days.	<u>4,000</u>
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Change in Net Assets of Governmental Activities	<u><u>\$ (5,532)</u></u>
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The Notes to Financial Statements are an integral part of this statement.

GLADWIN CONSERVATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES--BUDGET AND ACTUAL
GENERAL OPERATING FUND
For the Year Ended September 30, 2006

EXHIBIT C

	GENERAL OPERATING FUND			
	Orginal Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Federal Grants	\$ 15,000	\$ 6,875	-	\$ (6,875)
State Grants	165,025	116,025	\$ 116,016	(9)
Local Units of Government	13,750	6,875	7,275	400
Charges for Services	65,000	76,450	75,744	(706)
Interest and Rents	3,600	5,600	5,530	(70)
Other	450	30,000	25,100	(4,900)
Total Revenue	262,825	241,825	229,665	(12,160)
Expenditures				
Soil Conservation Operations	262,825	241,825	236,236	5,589
Capital Outlay	-	-	25,060	(25,060)
Total Expenditures	262,825	241,825	261,296	(19,471)
Excess of Revenues Over (Under) Expenditures	-	-	(31,631)	(31,631)
Fund Balance--October 1, 2005	-	-	118,152	118,152
Restatement to Fund Balance			(4,803)	(4,803)
Restated Fund Balance--October 1, 2005	-	-	113,349	113,349
Fund Balance--September 30, 2006	\$ -	\$ -	\$ 81,718	\$ 81,718

The Notes to Financial Statements are an integral part of the statement.

GLADWIN CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE A--DESCRIPTION OF DISTRICT OPERATIONS AND FUND TYPES

The Gladwin Conservation District was organized in 1953 for the purpose of providing local guidance and involvement in the promotion of soil conservation in Gladwin County, Michigan. The District is a local unit of government.

The accounting policies of the Gladwin Conservation District (District) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Gladwin Conservation District:

Reporting Entity

Gladwin Conservation District is located in Gladwin County and provides services to approximately 26,000 residents in many conservation areas. Gladwin Conservation District is governed by a five member board. The District board consists of the chair, vice-chair, secretary, treasurer and a director whom reside in the community.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the records of the District. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Accordingly, there are no other governmental units that are required to be included in the financial statements.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of Gladwin Conservation District. There is only one fund reported in the government-wide financial statements.

Private-sector standards of accounting are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The District has not elected to follow private-sector standards issued after November 30, 1989.

GLADWIN CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENTAL FUNDS

General Fund

This fund is used to account for all financial transactions except those provided for in another fund. The fund includes the general operating expenditures of the District. Revenues are primarily derived from grants, county appropriation, tree sales and donations. The fund includes the general operating expenditures of the local unit.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenue.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

When both restricted and unrestricted resources are available for use, it is the policy of the District to use restricted resources first, then unrestricted resources as needed.

GLADWIN CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and Budgetary Accounting

Budgets are adopted by the District Board for the General Operating Fund. The budgetary basis of accounting does not differ significantly from the modified accrual basis used to reflect revenues and expenditures for the fund. The budget is adopted at the activity level and control is exercised at the line-item level. The District Board monitors and amends the budgets as necessary.

The budget revenues and expenditures for the General Operating Fund, as presented in Exhibit C, include any authorized amendments to the original budget as adopted.

Deposits and Investments

The cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value, when obtained.

Accounts Receivable

At September 30, 2006, the accounts receivable for the District was \$4,000 which consists of charges for services rendered to others. The District expects to receive payment within one year or less.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Inventory and Prepaid Expense

Inventories are valued at cost, and removed on a first-in, first-out basis. Inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect expenses applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

GLADWIN CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Due To and Due From Other Entities

The District has numerous transactions related to its grant programs. Related receivables and payables for these grants are recorded in Due To and Due From accounts as needed to achieve a matching of revenues and expenditures.

Capital Assets and Depreciation

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated fair market value if donated or constructed.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings and Improvements	15 to 30 years
Vehicles	3 to 5 years
Equipment	3 to 8 years

Long-Term Debt

Long-term liabilities to be funded by governmental funds are reported in the government-wide financial statements. The government's long-term debt consisted of compensated absences. Employees are allowed to accumulate vacation and sick pay. The District only pays for vacation hours upon termination.

NOTE C--LEGAL COMPLIANCE

Budget Violations

Public Act 2 of 1968, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. Total actual 2006 expenditures exceeded the total amended budget by a total of \$19,471.

Expenditures by activity that exceeded appropriations are as follows:

	Final Budget	Actual	Variance
USFWS (Saginaw Bay RC & D)	\$ 2,900	\$ 3,000	\$ 100
Forestry Program	13,750	13,774	24
Capital Outlay		25,060	25,060

GLADWIN CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE C--LEGAL COMPLIANCE (Continued)

Adoption of Investment Policy

According to Public Act 20 of 1943, as amended, a formal investment policy is to be adopted by the board no later than August 31, 1998. As of September 30, 2006, the board of directors had not adopted an investment policy. The policy, once adopted, is to be in compliance with GASB Statement No. 40 for custodial, credit, and investment risks.

NOTE D--CASH AND INVESTMENTS

MCL 129.91 authorizes the District to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The District has not adopted an investment policy in accordance with the requirements of Public Act 20 of 1943, as amended. The District's deposits are in accordance with statutory authority. The District Board has designated one bank for the deposit of District funds.

At year end, the District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash and Cash Equivalents	<u>\$ 63,046</u>
Total	<u><u>\$ 63,046</u></u>

The bank balance of the primary government's deposits is \$69,695, of which \$69,695 is covered by Federal depository insurance.

GLADWIN CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

Investments Authorized by the Entity's Investment Policy

The District's informal investment policy only authorizes investment in all those that are authorized by law. The District has limited their investments to certificates of deposit that may extend beyond 1 year. Management has not addressed their exposure to interest rate risk, credit risk, and concentration of credit risk as required by GASB Statement No. 40.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The District has not addressed interest rate risk.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Long-term certificates of deposit do not have a rating provided by a nationally recognized statistical rating organization.

The District has not addressed concentration of credit risk.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the District's formal investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The District has not addressed custodial credit risk.

GLADWIN CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS

Following is a summary of the changes in the capital assets:

	Account Balances 09/30/05	Additions	Deductions	Account Balances 09/30/06
Capital Assets Being Depreciated				
Buildings and Improvements	\$ 3,669			\$ 3,669
Equipment	40,168	\$ 25,060		65,228
Total	43,837	25,060	\$ -	68,897
Less Accumulated Depreciation				
Buildings and Improvements	-	183		183
Equipment	34,715	3,829		38,544
Total	34,715	4,012	-	38,727
Net Capital Assets Being Depreciated	9,122	25,060	4,012	30,170
Total Net Capital Assets	<u>\$ 9,122</u>	<u>\$ 25,060</u>	<u>\$4,012</u>	<u>\$ 30,170</u>

Depreciation expense was charged to programs of the primary government as follows:

District Operations	<u>\$ 4,012</u>
Total Depreciation Expense	<u>\$ 4,012</u>

NOTE F--LONG-TERM DEBT

The changes in long-term debt of the District may be summarized as follows:

	Balances 09/30/05	Additions (Reductions)	Balances 09/30/06
Compensated Absences	<u>\$ 4,009</u>	<u>\$ (1,051)</u>	<u>\$ 2,958</u>
Total	<u>\$ 4,009</u>	<u>\$ (1,051)</u>	<u>\$ 2,958</u>

GLADWIN CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

Vacation Benefits

Vacation is earned in varying amounts depending on the number of years of service of an employee. District policy provides that the vacation benefits earned in the current calendar year may be carried over into the subsequent calendar year up to a maximum of 120 hours.

Sick Leave Benefits

Each regular full-time employee receives sick leave. There is no limitation on the accumulation of unused sick leave time. The District policy allows for no pay out of accumulated sick leave upon retirement or voluntary termination.

NOTE G--RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District continues to carry commercial insurance for property, liability, wrongful acts, crime, inland marine, and other risks of loss including workers' compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal years.

NOTE H--RESTATEMENT OF FUND BALANCE

The accounting records of the District have been maintained on the full accrual basis which is contrary to governmental accounting and the two payroll liability accounts had balances, which did not exist at September 30, 2005. The following is a summary of the changes in the restatement of the beginning fund balance:

Beginning Fund Balance--September 30, 2005		\$118,152
Less: Capital Assets		\$(11,761)
Plus: Accumulated Depreciation	\$ 5,778	
Accrued Wages Payable	1,040	
Payroll Deductions Payable	<u>140</u>	
Total Increase in Fund Balance		6,958
Net Decrease in Fund Balance--September 30, 2005		<u>(4,803)</u>
Restated Fund Balance--September 30, 2005		<u><u>\$113,349</u></u>

GLADWIN CONSERVATION DISTRICT
SCHEDULE OF REVENUES
BUDGET AND ACTUAL--GENERAL OPERATING FUND
For the Year Ended September 30, 2006

EXHIBIT D

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Federal Grants	\$ 15,000	\$ 6,875		\$ (6,875)
Total Federal Grants	15,000	6,875	\$ -	(6,875)
State Grants				
MDA--Operations		19,200	19,200	
CREP Program		55,000	55,000	
CMI Cedar River Watershed		41,825	41,816	-
Total State Grants	165,025	116,025	116,016	(9)
Local Units of Government				
Gladwin County	13,750	6,875	7,275	400
Total Local Units of Government	13,750	6,875	7,275	400
Charges for Services				
Cedar River Nelson Project		3,500	3,500	-
Ash Log Demo Project		500	500	-
Plat Book		200	200	-
Books		460	460	-
Native Grass and Wildflower Seed		4,803	4,803	-
Erosion Products		5,537	5,323	(214)
Tree Sales		61,000	60,796	(204)
Annual Meeting		400	152	(248)
Miscellaneous Services		50	10	(40)
Total Charges for Services	65,000	76,450	75,744	(706)
Interest and Rents				
Interest Earned	3,600	635	632	(3)
Equipment Rental		4,965	4,898	(67)
Total Interest and Rents	3,600	5,600	5,530	(70)
Other				
Donations From Private Sources		30,000	25,100	(4,900)
Total Other	450	30,000	25,100	(4,900)
Total Revenues	\$ 262,825	\$ 241,825	\$ 229,665	\$ (12,160)

GLADWIN CONSERVATION DISTRICT
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL--GENERAL OPERATING FUND
For the Year Ended September 30, 2006

EXHIBIT E

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
General Government				
Cedar River Project--Nelson	\$ 4,400	\$ 3,500	\$ 3,500	-
USFWS (Saginaw Bay RC&D)	4,000	2,900	3,000	\$ (100)
District Operations				
Administrator Salary			30,031	
Director Wages			3,440	
Director Training and Expense			222	
Employer FICA/Medicare			2,935	
Other Fringe Benefits			-	
Sick Pay			384	
Vacation Pay			4,403	
Office Supplies			356	
Plat Book			529	
Books			130	
Native Seeds			2,803	
Erosion Products			1,867	
Audit Fees			280	
Other Professional Services			1,120	
Annual Meeting			674	
Insurance--General			472	
Bank Fees			83	
Dues			2,525	
Mileage--Staff			274	
Mileage--Directors			305	
Education and Demonstration			20	
Community Promotion			464	
Printing and Publishing			35	
Equipment Expense			2,316	
Miscellaneous			203	
Sales Tax			159	
Credit and Gift Certificates			150	
Total District Operations	58,000	60,500	56,180	4,320
Forestry Program				
Forestry Expense			13,750	
Forestry Expense Miscellaneous			24	
Total Forestry Program	13,750	13,750	13,774	(24)

GLADWIN CONSERVATION DISTRICT
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL--GENERAL OPERATING FUND
For the Year Ended September 30, 2006

EXHIBIT E
(CONTINUED)

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Conservation Reserve Enhancement Program				
Administrator Salary			2,966	
Technician Salary			33,681	
Workmans' Comp Insurance			483	
Unemployment Insurance			150	
Health Insurance			5,740	
Employer FICA/Medicare			3,163	
Other Fringe Benefits			-	
Sick Pay			1,613	
Vacation Pay			2,946	
Office Supplies			1,444	
Audit Fees			100	
Telephone			156	
Staff Mileage			946	
Training			650	
Indirect			160	
Total Conservation Reserve Enhancement Program	55,000	55,000	54,198	802
CMI Program				
Administrator Salary			2,620	
Technician Salary			14,999	
Health Insurance			2,729	
Employer FICA/Medicare			1,411	
Other Fringe Benefits			-	
Sick Pay			358	
Vacation Pay			465	
Office Supplies			1,511	
CMI Supplies			15,000	
Audit Fees			240	
Other Professional Services			928	
Mileage			1,212	
TU Match--Shearer			25,000	
Total CMI Program	90,825	66,825	66,473	352

GLADWIN CONSERVATION DISTRICT
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL--GENERAL OPERATING FUND
For the Year Ended September 30, 2006

EXHIBIT E
(CONTINUED)

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Reforestation				
Seedlings			9,015	
Transplants			4,778	
Deciduous			1,549	
Shrubs			2,191	
Packets			333	
Fruit Trees			4,216	
Other Fruits			854	
Groundcovers			285	
Bulbs Perennials, etc.			880	
Other Items			1,337	
Plugs			8,082	
Building Rental			150	
Shipping Expense			1,752	
Miscellaneous			319	
Sales Tax			3,370	
Total Reforestation	36,850	39,350	39,111	239
Other General Government	262,825	241,825	236,236	5,589
Capital Outlay Control				
Equipment--Yard and Storage (CY)			25,060	
Total Capital Outlay			25,060	(25,060)
Total Expenditures	\$ 262,825	\$ 241,825	\$ 261,296	\$(19,471)



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

January 31, 2007

Board of Directors
Gladwin Conservation District
1501 North State Street
Gladwin, Michigan 48624

RE: Report on Internal Control Over Financial Reporting and Compliance and
Other Matters Based on an Audit of the Financial Statements Performed in
Accordance with Government Auditing Standards

Dear Directors:

We have audited the financial statements of the Gladwin Conservation District, Gladwin County, Michigan, as of and for the year ended September 30, 2006, which collectively comprise Gladwin Conservation District's basic financial statements and have issued our report thereon dated January 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gladwin Conservation District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Gladwin Conservation District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Gladwin Conservation District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Gladwin Conservation District's ability to

initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Gladwin Conservation District's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying summary of comments and recommendations to be significant deficiencies in internal control over financial reporting which is listed as 06-01 through 06-04.

A material weakness is a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Gladwin Conservation District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 06-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gladwin Conservation District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted other instances of noncompliance and other matters described in the accompanying comments and recommendations as items 06-05 through 06-10.

This report is intended solely for the information of the Gladwin Conservation District board of directors, management and others within the Conservation District, State and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Local Audit and Finance Division
Michigan Department of Treasury

GLADWIN CONSERVATION DISTRICT
COMMENTS AND RECOMMENDATIONS

MATERIAL WEAKNESS

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Disbursement Transaction Cycle

Finding 06-01

Condition: The documentation for disbursements included "faxes," "copies" and e-mails as support for the disbursements. The documentation did not contain administrative approval or cancellation of the document on the face of the voucher. We also found some instances where there was only one signature on the checks.

Criteria: The Michigan Department of Treasury Uniform Accounting Procedure Manual states:

- Dual signatures are required for all checking accounts. The District also requires dual signatures on all checks.
- Appropriate documentation (supporting invoices) must be attached for all disbursements.
- Original bills, not copies, must be used for documentation.
- All disbursements must be approved by the legislative body prior to disbursement unless addressed otherwise in the charter. The legislative body may establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). This policy must be very limited and a list of payments made prior to approval must be presented to the legislative body for approval.
- Administrative approval should be indicated on the face of the original bills, to document that the prices, extensions and goods were received along with the account classifications.

Recommendation: We recommend that the District follow and implement the above procedures.

OTHER SIGNIFICANT DEFICIENCIES

Although the following are not considered material weaknesses in internal controls, our audit disclosed certain other internal control deficiencies, which we wish to point out for consideration.

Receipting Process

Finding 06-02

Condition:

1. One person is involved in writing receipts, preparing deposits, posting receipts and reconciling the receipts with the receipt register, and bank account.
2. Cash is removed from a deposit for petty cash purposes.
3. Deposits are made only once or twice a month.

GLADWIN CONSERVATION DISTRICT
COMMENTS AND RECOMMENDATIONS

OTHER SIGNIFICANT DEFICIENCIES (Continued)

Criteria: Strong internal controls provide for the reliability of financial reporting, safeguarding of vulnerable assets, accurate and timely reporting of transactions, segregation of duties, access restrictions to and accountability for resources and records and proper documentation of transactions. The Michigan Department of Treasury, Uniform Accounting Procedures Manual states, in part:

- All copies of voided or canceled receipts must be retained in the receipt book.
- All money must be turned over intact and numerically controlled official receipts with the name of the local unit printed on the receipt must be issued for all revenues.
- All deposits are to be made intact. Intact means that the deposit must include the checks and cash received for a specific numerical sequenced receipt group.
- Deposits must be made timely and reconciled to official receipts.
- Strong internal control activities require for the maintenance of original source documentation to be kept intact.
- Bank deposits of funds received should be made at least weekly and more often if the amounts received are substantial.

Recommendation: We recommend that the District implement the following procedures as necessary:

1. Segregating the duties of receipting, preparing the deposit, posting receipts and reconciling monthly receipts.
2. All copies of void receipts are properly voided and kept intact and an explanation given for the reason for the “void” as well as supervisory approval.
3. All monies should be deposited at least weekly or more frequently if there is a significant amount of cash/checks receipted in.

Reconciling Accounts

Finding 06-03

Condition: The inventory, long-term debt, accrued wages payable, accounts payable, capital assets control totals in the general ledger did not equal the detail (subsidiary listing).

Criteria: Reconciling subsidiary ledgers with their control accounts is an effective way to ensure that all monies have been properly accounted for. Good internal controls dictate that such reconciliations be performed monthly and must be retained for audit purposes.

Recommendation: We recommend that all control accounts in the general ledger be supported by a subsidiary listing of accounts that reconciles into the control account total and that is reconciled at least annually.

GLADWIN CONSERVATION DISTRICT
COMMENTS AND RECOMMENDATIONS

OTHER SIGNIFICANT DEFICIENCIES (Continued)

Payroll Transaction Cycle

Finding 06-04

Condition:

1. The board does not approve payroll for the employees and themselves. There is no formal documentation certifying the board's wages.

Criteria: Appropriate documentation (supporting invoices) must be attached for all disbursements. The board must approve all disbursements.

Recommendation: We recommend that the board prepare their own time sheet and that all payroll be approved by the board based upon administrative approval.

2. We found that the first quarter of the fiscal year (Oct-Dec 2005) wages and taxable wages did not match the payroll records or the MESC wages. The 941 and related FICA/MC deductions were overstated by \$800 and \$148.39, respectively.

Recommendation: We recommend that the District contact the IRS to determine what action is warranted.

3. We found that elected officials were included in the unemployment insurance.

Criteria: Elected officials' wages are excludable under section 43 of the Michigan Employment Security Act. The total overpayment was \$39.54 at September 30, 2006.

Recommendation: We recommend that the District discontinue including the elected officials' wages on the unemployment form and contact the State if the District would like to get a refund based on the overpayments.

4. We found that an employee was paid in excess of 600 hours over the standard 40 hour work week for the year. Initially there was only one personnel agreement that permitted comp time as it related to additional time for travel. In March 2006, there were two contracts for the same person, both of which required the employee to work 40 hours a week and receive the same benefits (4 hours of sick and 6 hours of annual for each bi-weekly pay period). The employee was paid benefits based on only one of the personnel agreements. The employee did work for two separate grant agreements. The hours paid the employee and the pro-ration between the grant agreements is questionable.

Criteria: Employees should be paid in accordance with written policy or personal agreements. Hours worked in excess of a 40 hour work week is governed by the Fair Labor Standards Act.

Recommendation: The employment contract should be written to be in agreement with the Fair Labor Standards Act.

GLADWIN CONSERVATION DISTRICT
COMMENTS AND RECOMMENDATIONS

STATUTORY COMPLIANCE

General Appropriation Act

Finding 06-05

Condition: The District did not appear to hold a public hearing before passing its 2005/2006 budget. The 2005/2006 budget was not adopted until October 27, 2006 and the 2006/2007 budget was not adopted until October 10, 2006. The District is required to adopt a budget prior to incurring expenditures. Without a formal budget the District has no authority to incur expenditures. The budgets did not contain beginning or ending fund balances. The District should amend the budget prior to expenditures exceeding the amounts budgeted.

Criteria: MCL 141.434 Section 14 states:

- (3) The chief administrative officer shall transmit the recommended budget to the legislative body according to an appropriate time schedule developed by the local unit. The schedule shall allow adequate time for review and adoption by the legislative body before commencement of the budget year. The recommended budget, when transmitted by the chief administrative officer, shall be accompanied by a suggested general appropriations act to implement the budget. The suggested general appropriations act shall fulfill the requirements of Section 16.
- (4) The recommended budget transmitted by the chief administrative officer shall be considered by the legislative body.
- (5) The chief administrative officer shall furnish to the legislative body information the legislative body requires for proper consideration of the recommended budget. **Before final passage of a general appropriations act by the legislative body, a public hearing shall be held. (emphasis added)**

MCL 141.435 Sec. 15 states:

- 1) The recommended budget shall include at least the following:
 - (a) Expenditure data for the most recently completed fiscal year and estimated expenditures for the current fiscal year.
 - (b) An estimate of the expenditure amounts required to conduct, in the ensuing fiscal year, the government of the local unit, including its budgetary centers.
 - (c) Revenue data for the most recently completed fiscal year and estimated revenues for the current fiscal year.
 - (d) An estimate of the revenues, by source of revenue, to be raised or received by the local unit in the ensuing fiscal year.
 - (e) The amount of surplus or deficit that has accumulated from prior fiscal years, together with an estimate of the amount of surplus or deficit expected in the current fiscal year. The inclusion of the amount of an authorized debt obligation to fund a deficit shall be sufficient to satisfy the requirement of funding the amount of a deficit estimated under this subdivision.
 - (f) An estimate of the amounts needed for deficiency, contingent, or emergency purposes.
 - (g) Other data relating to fiscal conditions that the chief administrative officer considers to be useful in considering the financial needs of the local unit.

GLADWIN CONSERVATION DISTRICT
COMMENTS AND RECOMMENDATIONS

STATUTORY COMPLIANCE (Continued)

- (2) The total estimated expenditures, including an accrued deficit, in the budget shall not exceed the total estimated revenues, including an available unappropriated surplus and the proceeds from bonds or other obligations issued under the fiscal stabilization act or the balance of the principal of these bonds or other obligations.

MCL 141.436 Sec. 16 states:

- (1) Unless another method for adopting a budget is provided by a charter provision in effect on April 1, 1980, the legislative body of each local unit shall pass a general appropriations act for all funds except trust or agency, internal service, enterprise, debt service or capital project funds for which the legislative body may pass a special appropriation act.
- (3) The general appropriations act shall set forth the amounts appropriated by the legislative body to defray the expenditures and meet the liabilities of the local unit for the ensuing fiscal year, and shall set forth a statement of estimated revenues, by source, in each fund for the ensuing fiscal year.
- (4) The general appropriations act shall be consistent with uniform charts of accounts prescribed by the state treasurer or, for local school districts and intermediate school districts, by the state board of education.

MCL 141.437 Sec. 17 states:

- (1) Except as otherwise provided in section 19, a deviation from the original general appropriations act shall not be made without amending the general appropriations act. Subject to section 16(2), the legislative body of the local unit shall amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined. An amendment shall indicate each intended alteration in the purpose of each appropriation item affected by the amendment. The legislative body may require that the chief administrative officer or fiscal officer provide it with periodic reports on the financial condition of the local unit.

MCL 141.438 Sec. 18 states:

- (1) A member of the legislative body, chief administrative officer, administrative officer, or employee of the local unit shall not create a debt or incur a financial obligation on behalf of the local unit unless the debt or obligation is permitted by law.
- (3) Except as otherwise provided in section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body. The chief administrative officer, an administrative officer, or an employee of the local unit shall not apply or divert money of the local unit for purposes inconsistent with those specified in the appropriations of the legislative body.

GLADWIN CONSERVATION DISTRICT
COMMENTS AND RECOMMENDATIONS

STATUTORY COMPLIANCE (Continued)

MCL 141.439 Sec. 19 states:

- (1) A member of the legislative body, the chief administrative officer, an administrative officer, or an employee of a local unit shall not authorize or participate in the expenditure of funds except as authorized by a general appropriations act. An expenditure shall not be incurred except in pursuance of the authority and appropriations of the legislative body of the local unit.
- (2) The legislative body in a general appropriations act may permit the chief administrative officer to execute transfers within limits stated in the act between appropriations without the prior approval of the legislative body.

Directive: We direct the District to comply with the above statutory budgeting requirements and to schedule and hold hearings as required by law. The board of directors should take appropriate action to ensure that the budget is adopted in a timely manner as required by law and expenditures do not exceed appropriations.

Board Meeting/Minutes

Finding 06-06

Condition:

- a) The minutes did not indicate that the budgets were adopted after a public hearing was held along with the related information that meeting minutes should contain.
- b) It appears that a closed session may have been held without listing the purpose, without a roll call vote or for an allowable reason for entering into a closed session (as defined by the Open Meetings Act).
- c) The board minutes were not signed by the board secretary and not always validated by the chairperson.
- d) Monthly financial reports were not always presented at the board meetings.

Criteria: The minutes of a Conservation District are the official record of business transacted, activities undertaken and plans projected. Public Act 267 of 1976, the Open Meetings Act, requires Districts to record the proceedings of all meetings. By law, minutes must:

1. Contain time, date, and place of meeting.
2. State members present and members absent.
3. Contain all decisions made at a meeting open to the public.
4. If closed meeting, the reason a closed session was held.
5. Contain all roll call votes taken.
6. Be available to the public at no more than the cost for printing and copying.
7. Have draft minutes completed not more than 8 business days after a meeting.
8. Have approved minutes available no later than 5 business days after the meeting at which the minutes were approved.
9. Corrections in the minutes must be made no later than the next meeting after the meeting to which the minutes refer. Corrected minutes must be available no later than the next meeting after the correction and must show both the original entry and the correction.
10. Minutes signed by the secretary to the board and validated by the chairperson.

GLADWIN CONSERVATION DISTRICT
COMMENTS AND RECOMMENDATIONS

STATUTORY COMPLIANCE (Continued)

The Conservation District Operations Handbook states the following:

Below is a list of the items to be contained in the monthly financial report:

1. Balance Sheet and checking account reconciliation.
2. List of bills paid the previous month along with the expenditure line from which each was paid.
3. List of bills to be authorized by the board for payment along with the expenditure line from which each will be paid.
4. An Income Statement, also known as a Profit and Loss Statement. All line-items for each activity should be listed here. An example of this kind of statement can be found in the Michigan Conservation District Uniform Accounting Procedures Manual, Part 5, Sample Financial Statements.
5. These financial reports must be completed monthly. This means that they must be done even if the monthly meeting is not held. It must also be done in the month when the annual meeting is held.
6. These financial reports should reflect activity for the entire calendar month (example, October 1 through October 31) prior to the date of the monthly meeting. For example the financial activity for the month of October should be reported at the November monthly meeting. Do not report for part of a month or parts of the two months together.

Recommendation: We recommend that the District comply with the Open Meetings Act and the Conservation District Operations Handbook.

OTHER MATTERS

Although the following is not considered to be a material weakness in internal control or significant deficiency, we wish to point out other matters for consideration by management.

Petty Cash

Finding 06-07

Condition: The District is using the imprest cash in the cash collection drawer as a petty cash fund. The imprest cash in the cash collection drawer is being replenished by withholding cash collections from the bank deposit. The District has not established a petty cash fund.

Criteria: If the District desires a petty cash fund, the District's Board should adopt a resolution establishing a petty cash fund for a set dollar amount. The amount established as a petty cash fund must be recorded in the general ledger. Disbursements from the petty cash fund must be supported by sale receipts. The set dollar amount of the petty cash fund must be reconciled to the cash-on-hand and sale receipts. The reconciliation must be documented. The replenishment of the petty cash fund occurs by vouchering an amount equal to the sales receipts and writing a check drawn on the District's general bank account. The District's Board shall approve the petty cash voucher with other disbursements. The disbursements from the petty cash fund should be recorded in a miscellaneous expenditure account.

GLADWIN CONSERVATION DISTRICT
COMMENTS AND RECOMMENDATIONS

OTHER MATTERS (Continued)

Recommendation: We recommend that the District Board adopt a resolution establishing the petty cash fund and set the dollar amount that is to be maintained in the petty cash fund. The set dollar amount of the petty cash fund approved by the board must be recorded in the general ledger (we recommend general ledger account number 101-000-004). The board should adopt policies and procedures regarding disbursements payable from the petty cash fund.

Imprest Cash

Finding 06-08

Condition: The District is using the imprest cash in the cash collection drawer as a petty cash fund. The imprest cash in the cash collection drawer is being replenished by withholding cash collections from the bank deposit.

Criteria: The District's Board should adopt a resolution to establish the amount of imprest cash that is to be maintained in the cash collection drawer. The amount established as imprest cash in the cash collection drawer must be recorded in the general ledger. The purpose of the imprest cash in the cash collection drawer is exclusively to make change from.

Recommendation: We recommend that the District Board adopt a resolution establishing the imprest cash amount that is to be maintained in the cash collection drawer. The amount established as the imprest cash balance must be recorded in the general ledger (we recommend general ledger account number 100-000-005). The District must reconcile cash collections on hand to agree with a numerical receipt sequence and the imprest cash balance. Any variances between the cash collections and the imprest cash amount should be identified in a cash over (short) account (we recommend general ledger account number 100-000-006). Cash collections on hand must be deposited to the bank intact.

Investment Policy

Finding 06-09

Condition: The District has not assessed investment risks as required by GASB Statement No. 40.

Criteria: The Governmental Accounting Standards Board adopted GASB Statement No. 40, "Deposit and Investment Risk Disclosures," an amendment of GASB Statement No. 3. The provisions of GASB Statement No. 40 are effective for financial statements for periods beginning after June 15, 2004.

The GASB Statement No. 40 summary states, in part: "The deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also should be disclosed."

GLADWIN CONSERVATION DISTRICT
COMMENTS AND RECOMMENDATIONS

OTHER MATTERS (Continued)

Recommendation: We recommend that the District formulate an updated investment policy that includes the requirements for GASB Statement No. 40 and have the board adopt the new policy.

Conservation District Policies

Finding 06-10

Condition: The District did not have the following policies:

- Credit Card Policy
- Social Security Number Privacy Policy
- Travel Policy
- HIPPA Policy
- Capitalization Policy

Criteria: The policies listed are required to be part of the operations of local units of government.

Recommendation: We recommend that the District develop the listed policies and place them in operation.